

Department of Finance and Administration – Policy 23
Accounts Receivable – Recording, Collection, and Write-Offs

Introduction and Background

1. This Policy Statement 23 has been developed to provide guidance to State agencies for the recording, collection, management, and writing-off of accounts receivable. An account receivable represents an amount due to the State for goods or services that the State has provided to a customer. Customers typically include citizens, businesses, not-for-profit entities, and other government agencies. This policy also applies to notes and loans receivable, as well as returned check items.

Rules of the Department of Finance and Administration Chapter 0620-1-10 Procedures for Returned Checks have been established to ensure recovery of the State's costs associated with checks, etc. deposited to a state account that are subsequently returned unpaid by the drawer's bank and to ensure that State government pursues all available recourses and remedies on such returned items. The remedies in the Procedures for Returned Checks include requiring departments and agencies to assess the handling charge of \$20 authorized by T.C.A. 47-29-102. The remedies also include assessing a fee when a collection agency is used to recover from debtors reasonable charges imposed by banks as provided in T.C.A. 62-20-115.

Applicability and Effective Date

2. This policy statement is issued by the Department of Finance and Administration in accordance with the authority granted under T.C.A. 4-3-1007, and is effective ninety days after approval. The Department of Finance and Administration will develop additional implementation procedures for this policy statement. For additional guidance on returned check items and the write-off of receivables, please refer to the Department of Finance and Administration rules on those topics. Any applicable federal grant requirements regarding the collection of receivables supersede the requirements of this policy statement. Institutions of the University of Tennessee and the Tennessee Board of Regents are excluded from this policy statement

General Rule

3. State agencies are required to identify, record, and collect all amounts due to the state where goods or services have been provided and payment is due. State agencies will make a reasonable effort to collect all receivables on a systematic and periodic basis as presented in the guidelines in Section 5 of this policy statement and to pursue the remedies listed in Chapter 0620-1-10 Procedures for Returned Checks. State agencies will assess the handling charge against the maker or drawer of a check,

warrant, or order which is not paid due to insufficient or no funds as authorized by T.C.A. 47-29-102.

Where appropriate, an allowance for estimated uncollectible accounts will be established by the agency based on past history. All accounts receivable should be aged on a monthly basis. The amount of the receivable should determine the extent of the collection effort in accordance with the guidelines in this policy statement.

Recording of Receivables

4. Agencies should maintain detailed transaction level information on all accounts in a separate database. Agencies are required to record all accounts receivable by type in the State's accounting system (STARS) based on guidelines established by the Division of Accounts. The amount should be adjusted on a monthly basis.

Returned check items will be recorded in the returned check clearing account, based on guidelines established by the Division of Accounts in conjunction with the Department of Treasury.

Because some accounts receivable may prove to be uncollectible, each department should record an allowance for uncollectible accounts on STARS for receivable types, based on consultation with the Division of Accounts. The allowance should be adjusted on a monthly basis if necessary. The allowance for uncollectible accounts will be used by the Division of Accounts for year-end financial reporting purposes.

Collection of Receivables

5. The outstanding balance of each receivable should determine the extent of the collection effort. Reasonableness should be used in determining the effort expended in attempting to collect amounts less than \$10.

State agencies are required to implement collection efforts that meet the following minimum collection thresholds. Attempts to collect outstanding receivables may include collection letters and phone calls. Additional efforts may be made if deemed appropriate. All collection efforts should be clearly documented.

MINIMAL COLLECTION EFFORTS
(Other than returned check items)

Individual Balance	Attempts at Collection			Send to Collection Agency
	1	2	3	
\$10 - \$ 24.99	x			
\$25 – \$49.99	x	x		
\$50 – \$99.99	x	x	x	
\$100 over	x	x	x	x

The returned check items are sent directly to a collection agency to perform the initial collection efforts. Any returned check items returned uncollected from the collection agency are subject to the other remedies provided in the Procedures for Returned Checks.

Use of Collection Agency

6. State agencies and departments should utilize a collection agency based on guidelines established by the Division of Accounts. The collection agency will be used for all returned check items unless the agency has received an exception under Section 9 of this policy statement.

Utilization of Offset Measures

7. Once a debt is deemed uncollectible, agencies should ensure that reasonable offset measures have been employed to minimize the loss to the state. Agencies should consult with the Division of Accounts where applicable to determine if the party in default is receiving any state funds that could be used to satisfy the receivable claim.

Write-off of Accounts Receivable

8. If a receivable proves to be uncollectible based on collection efforts described in this Policy Statement, department heads are responsible for authorizing that these accounts be written off. Guidelines for write-offs will be established through an Official Rule of the Department of Finance and Administration. Write-off requests should be submitted with supporting material to the Division of Accounts for approval in accordance with established procedures.

Exceptions

9. Exceptions to this policy must be approved by the Chief of Accounts, Department of Finance and Administration.